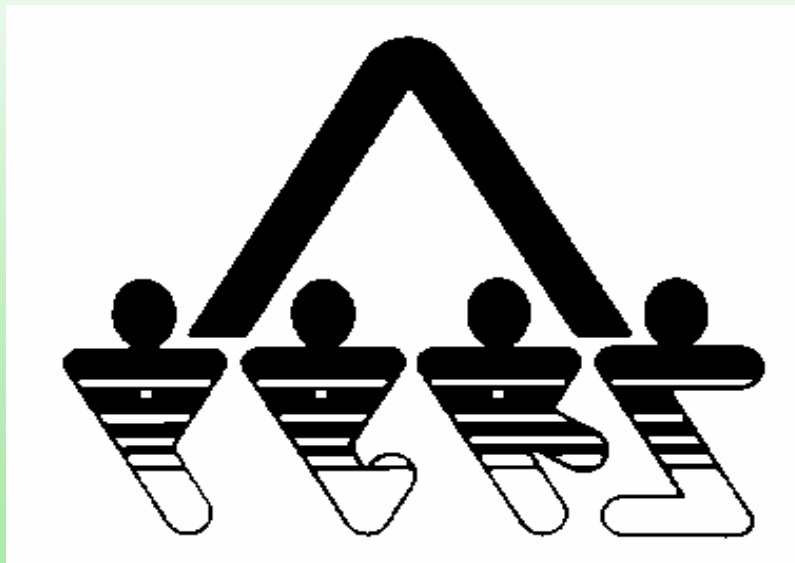


Deferred Compensation Plan

Supplemental Retirement



Definition

- **Voluntary supplemental retirement plan**
- **Section 457 of the Internal Revenue Code**
- **Investing Pre-tax dollars**
- **Taxed at the time of distribution**

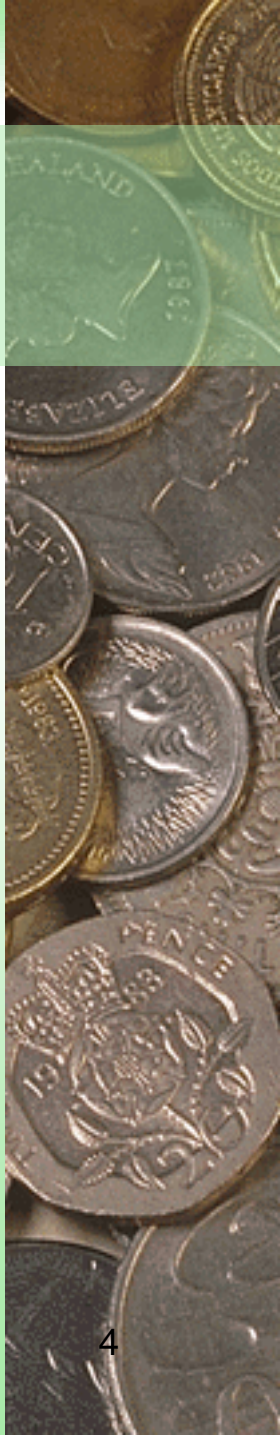


Eligibility

- **Employed by a participating employer**
- **At least 18 years of age**
- **Regularly funded position**
- **Works a minimum of 20 hours per week, 20 or more weeks per year.**

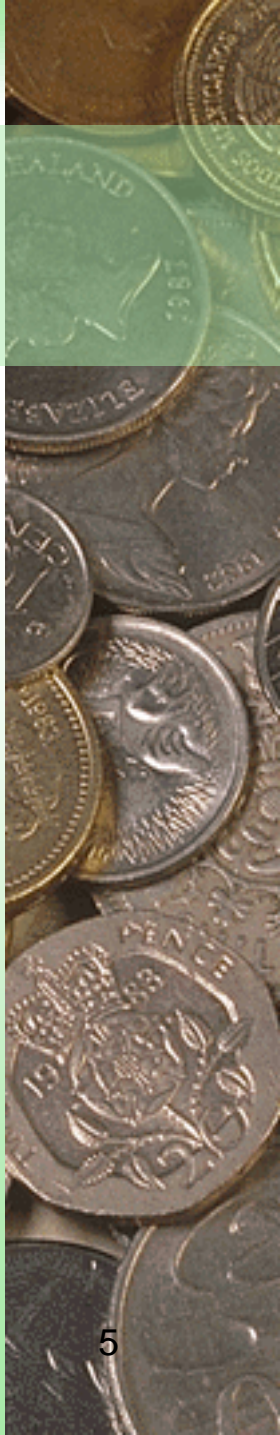
Investing

- **11 eligible providers**
- **Can participate with multiple providers**
- **Can change providers at any time**
- **You select how your money is invested**



Investing (cont.)

- **Change contribution level at anytime (Need 30 Day Notice)**
- **Can do partial or full account transfers to another deferred compensation provider**
- **May change account allocations at any time**



Annual Deferral Limits

Minimum

- \$25 per month
- Minimum required PEP contribution

Maximum

- The lesser of:
Annual Maximum per calendar year
or 100% of Taxable Compensation

Annual Deferral Limits (cont.)

- **2005: \$14,000**
- **2006: \$15,000**
- **After 2006, indexed in \$500 increments each calendar year**

Includible Compensation

- Reduced by employer retirement contributions under a IRC 414(h) arrangement

Catch-up Provisions

Two Options:

- **Age 50+ Annual Catch-up**
- **Regular 3-year Catch-up**

Age 50+ Annual Catch-up

- **Increases normal annual maximum limit**

2005	\$4,000	2006	\$5,000
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\$500 limits after 2006

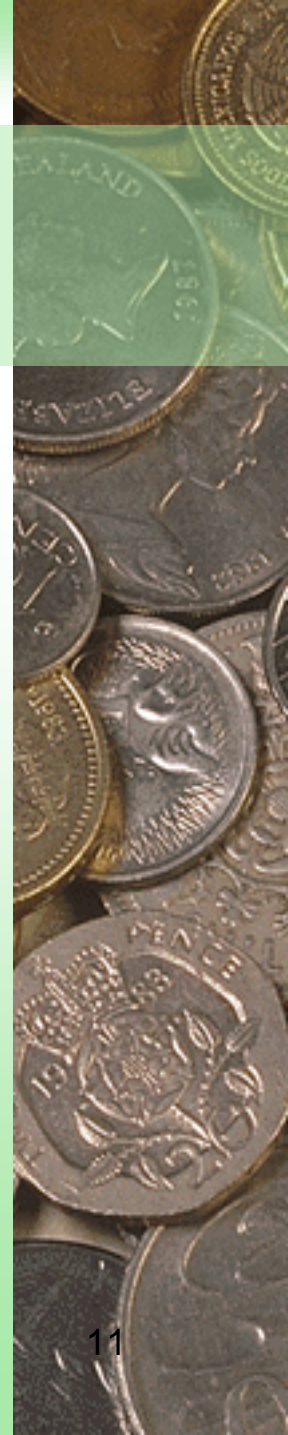


Regular 3-Year Catch-Up

- **Applicable dollar limits per year:**

2005	\$28,000	2006	\$30,000
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- **3 consecutive calendar years**
- **One time only**
- **Cannot be used at the same time as the Age 50+ annual catch-up**



LUMP SUM CONTRIBUTIONS

Compensation eligible for deferral:

- **Lump sum payment for accrued annual leave**
- **Lump sum payment for unused sick leave**
- **Lump sum payment for back pay**

Lump sum payments cont.

- Lump sum payment is subject to FICA before deferral
- Cannot exceed annual IRC limits
- **Severance pay or buyout distributions are not eligible to be deferred.

Distributions

Funds are available for distribution at specific times:

- **Separation from employment**
- **An approved unforeseeable financial hardship**
- **Eligibility for deminimus distribution**

Distributions (cont.)

Separation from employment includes:

- **Retirement**
- **Disability**
- **Resignation**
- **Discharge**
- **Death**



Distribution Payment Options

- Lump sum distribution
 - Subject to mandatory 20% federal income tax
- Periodic payment
 - Annual, semi-annual, quarterly, monthly
 - Not subject to 20% income tax
- Deferred distribution
 - Minimum distribution required at age 70½ unless employed

Distributions (cont.)

Unforeseeable Financial Hardship

- **Resulting from sudden and unexpected unforeseeable circumstances as result of events beyond control of the participant.**
- **Subject to Board approval**



Distributions (cont.)

Lump sum deminimus

- **Account is less than \$5,000**
- **No deferrals for previous 24 months**
- **No previous distributions**



Distributions (cont.)

Penalties

- **No 10% withdrawal before age 59 ½**
- **Provider withdrawal penalties on some products**

Rollovers

- **To other 457 Plans**
- **401(a), 401(k) plans, 403(b) plans, IRA, or other tax qualified plans**

Rollover Purchases

- 457 deferred compensation plan funds are eligible for plan to plan transfer for the purchase of service credit in the retirement plan.
- Transfer is not considered a distribution and is not subject to income tax
- May be subject to Provider penalty or fee

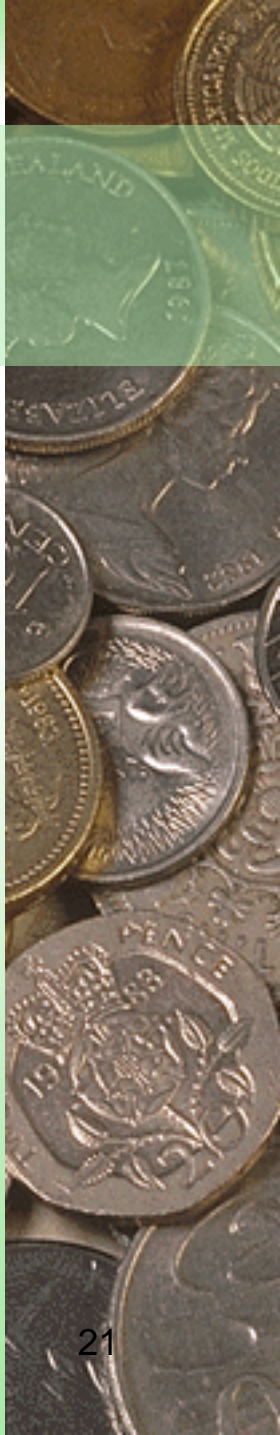
Distributions (cont.)

Taxes

- **Income in the year received**
- **Reported on 1099R Form**

Social Security

- **No effect on earnings limit**



Distributions (cont.)

Upon Separation from Service

- **NDPERS will send notice to you and your agent/provider company**
- **You must contact your agent for assistance in selecting a distribution option**